

CIA/OER/S-07507-75 CONTINUING ON COURSE
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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

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CIA/OER/S-07507-75

21 April 1975

MEMORANDUM FOR: Mr. James N. Carnes
International Security Agency
Department of Defense

SUBJECT : Greece: Continuing on Course

We are forwarding the enclosed material on Greece in
response to your recent request. If you should require
further information, please call

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Office of Economic Research

Attachment: As Stated

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GREECE: CONTINUING ON COURSE

The Karamanlis government is moving cautiously in the economic field, trying to stimulate activity without igniting inflation or worsening the payments balance. Last July Karamanlis inherited from the military government an economy that had been slowed by a stiff dose of austerity and by mobilization for the Cyprus crisis. Economic activity has picked up under the new regime while inflation and the trade deficit have remained tolerable; further progress seems likely in 1975.

THE DOMESTIC ECONOMY

Both industrial production and GNP declined in 1974 by about 2%, after six consecutive years of rapid growth. Although still hamstrung by inflation and trade problems, the economy began to recover after midyear. By October, industrial production had recouped three-fifths of the 17% drop from the February 1974 peak.

Tight fiscal and monetary policies adopted in late 1973 started the slowdown; mobilization for the Cyprus crisis in July 1974 carried it to its nadir. The economy was further depressed last year by a \$380 million jump in net oil imports, to \$720 million. Tourism -- a major

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industry -- was hit hard by the worldwide economic slowdown and a spurt of anti-Americanism following Turkey's invasion of Cyprus.

The Karamanlis government has continued the moderately expansionary line initiated by the military government just before its ouster. It quickly abolished a special tax on construction and has now eased credit restraints. The 1975 budget calls for spending to rise by one-third, an increase that almost certainly will exceed the rise in tax collections. To spur consumption, the government is providing tax concessions to low-income groups.

Fear of rekindling inflation will act as a brake on government stimulative efforts. The austerity program held the rise in consumer prices to 14% in 1974 following the 30% jump of 1973. Although inflation has lessened, strong expansionary measures could send prices soaring again.

GNP should post a small gain in 1975, perhaps exceeding the 1973 level by a percentage point or so. Recent announcements of major investment projects suggest that the new regime has won the confidence of domestic and foreign businessmen. Unemployment nevertheless is likely to worsen because of the scarcity of jobs for migrant workers in recession-plagued Western Europe.

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THE FOREIGN SECTOR

Balance-of-payments problems will keep Athens from moving vigorously to spur growth. The trade deficit amounted to \$2.4 billion in 1974 -- about the same as in 1973 -- even though import volume fell, export volume rose substantially, and export prices increased nearly as much as import prices. This somber arithmetic reflects the fact that export earnings in 1973 were only a third as large as import expenditures.

Financing problems would have been more severe had not an increase in receipts from transport services nearly offset the decline in tourist earnings and workers' remittances. An increase in receipts of long-term capital -- mostly loans from Bonn, the IMF oil facility, and a consortium of private banks -- merely compensated for the drying up of short-term capital inflows. Athens consequently drew down foreign reserves by about \$110 million.

To improve the trade balance in 1975, the government intends to expand its export incentive program and maintain import restraints. Athens will rely on quantitative controls on non-oil items and heavy taxes on petroleum products. Tourism will remain depressed by high air fares, Greek-Turkish tension, and the anti-American atmosphere. Earnings from shipping services will rise little, at best.

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GREECE: BALANCE OF PAYMENTS

Million US \$

	<u>1972</u>	<u>1973</u>	<u>1974</u> (Estimated)	
Exports.	836	1,230	1,774	
Imports, f.o.b.	-2,197	-3,642	-4,194	
Trade balance	-1,361	-2,412	-2,420	
Tourism	297	402	306	
Transportation	358	474	663	
Remittances	572	732	624	
Other invisibles	-270	-384	-413	
Current account balance	-404	-1,188	-1,240	
Long-term capital	477	688		} Long and Short-term Capital
Basic balance	73	-500	1,130	
Other capital	263	405		
Payments balance	336	-95	-110	

In 1975, the current account deficit again will approximate \$1.2 billion, forcing continued heavy borrowing abroad. Prospective lenders include Paris, the EC, and several OPEC countries. Athens will try to protect foreign reserves, which now hover about the \$900 million mark.

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